

Analysis on investment decision of start-up company Based on POCD framework: the case of Naixue's tea

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ABSTRACT

In recent years, multiple startups have been found all around the world. Most of them need to be invested from VC to support their development. However, only a few startups grow into valuable companies that can bring money to investors, which means they need to assess the potential risk of startups. Unfortunately, existing methods to assess risks are not suitable for startups for their limitations. Therefore, we raise a new method called POCD framework. To explain it further, we used this method to assess a Chinese milk-tea company Naixue of four aspects. Finally, by comparing its advantages and disadvantages in four aspects, we concluded that Naixue is worth to invest. Eventually, in the process of assessing, we can note the merits of the POCD framework.

Keywords: POCD framework, Naixue's tea, Investment decisions, start-up company

1. INTRODUCTION

Nowadays, governments take diverse policies to boost the development of startups since they positively affect the economy and so on. For instance, startups create more jobs and relieve employment pressure. From January to September 2020, startups averagely created 7.3 jobs [1]. Besides, Startups promote the transformation of scientific and technological achievements. More specifically, when the startups start to generate revenues or get money from VC, they will have more time and confidence to research and develop new technologies, which increases the possibility of scientific and technological achievements being put into practice.

With huge development potential and advantages, they get attention from VC. However, most of them need finance and will put VC at risk. It is estimated that almost all average scores are equal to zero after the first investment to startups. Next, there is merely a very small percentage of startups that are successfully closed.

Therefore, VC needs some ways to assess potential risks and growth possibilities. Unfortunately, existing ways used to assess companies are not suitable for startups because of their natural characteristics. Firstly, most startups haven't stable cash flows. We can't predict

how long do the startups exist and determine which discount rate is suitable for startups. Therefore, we can't use NPV to assess startups. Secondly, PP (Payback Period) overlooks time value since it doesn't consider earnings after the payback period, which means we may underestimate the value of startups. Lastly, IRR is likewise not feasible because we must use NPV to calculate it, which means it has the same drawbacks as NPV.

Because of their limitations, we introduce a new way, the POCD framework, to assess startups. POCD framework assesses startups according to their existing four kinds of information, including people, opportunity, context, and deal. To explain it further, we will use this framework to assess a famous Chinese startup--- Naixue. We first choose it because the milk-tea market in China has become bigger, and Naixue is a representative brand of the milk tea industry. It is estimated that China's milk-tea market will reach 764.5 billion Yuan by 2025, and the future five-year compound growth rate is up to 13.6% [2]. The next reason is that Naixue has opened 422 stores [3] in just five years. However, rapid growth is not always a good thing for startups. Therefore, we will assess it from four aspects to judge whether it is a good symbol for Naixue and VC.

This framework consists of four parts---People, Opportunity, Context, and Deal. Therefore, we will first collect Naixue’s relevant information from those parts. Then, we will compare and evaluate its strengths and weaknesses in four aspects. Finally, we will conclude that the potential development of Naixue and whether to invest it. This framework is useful for VC and the founder of startups since they can obtain suggestions from those aspects. Some founders of startups may specialize in science, physics, and so on. However, they may not be good at managing a startup, and they don’t have orientations to find problems and make startups work efficiently. Under this circumstance, POCD provides a framework to help them.

2. METHODOLOGY

Our analysis includes four steps. Firstly, we will collect information about Naixue by searching on the company’s website and other appraisals in aspects—people, opportunity, context, deal. Secondly, we will arrange and summary that information, list keywords or sentences. Thirdly, we will evaluate the strengths and weaknesses of the four aspects. Finally, we will conclude.

Table 1. Definition of the POCD framework

P	People	Founders and other important employees. Their relevant experiences, skills, and educational background. Their previous accomplishments. Other people who may have a vital part in the development of startups. Their characteristics and reputation.
O	Opportunity	Barriers to entry, the potential of development, customers. Demands for the company’s products. Target consumers and their consumption concept. Competitors’ products and pricing.
C	Context	Macroeconomic environment: economic activity, inflation, exchange, rates, and interest rates. The loan interest rate from banks or others. Rules and regulations. Technology concerning decreasing cost, making products more delicious and healthier.
D	Deal	The new capital, new employees, and new external deals.

3. POCD FRAMEWORK ANALYSIS: CASE OF NAIKUE’S TEA

In the analysis of Naixue, we mainly focus on its people, opportunity, and context. Meanwhile, deal refers to some transactions in the financing process of startups.

3.1 People

First, Peng Xin dare to do, after the idea of making fruit tea, Peng Xin quit her original job, she drew up a business plan and learn to make tea and bake. To start their own entrepreneurial career, Peng Xin multi-party to seek partners, and then turned to find the catering industry's predecessor Zhao Lin. Zhao Lin is a predecessor of the catering industry. Deeply know about the industry [4].

Second, CTO's professional technique, He Gang as previous Luckin coffee CTO, the main responsibility is to manage the "information center", and the technical director of each line of business and data director to report to him. Technology is a key part of the Coffee's business model, when he left, Mr. Ho took away a group of middle-level workers from Beijing and Xiamen, the sources said. After adding Naixue's tea, the operation of Its Naixue’s tea’s will be strongly supported by technology [5].

Third, the division of labor is clear: in the founder's division of labor level, Zhao Lin is mainly responsible for external expansion, engineering, and store operations, Peng Xin is responsible for product development and marketing. The couple's close cooperation has also contributed to Hirohito's capital bets on it.

Forth, the founder has excellent entrepreneurship: NaiXue’s B round and C round investor Hongyu Capital Founder and CEO Wang Wei said to the investment network, "In fact, in addition to industry research, in contact with the founder Zhao Lin and Peng Xin, they show the entrepreneurial temperament and spirit that we appreciate, their entrepreneurial and acquaintance love story also touched us, so we determinate to invest "

Last but not the least, the Senior Director of NaiXue’s Tea Li Daobing is a member of TGO Peng. With more than 1,200 cumulative members, TGO is a technology leader with more than 60% CTO and Technology VP in major industries such as corporate services, life services, and Internet finance. At the same time, TGO members are in enterprises, both start-ups, but also unicorns, and first-line Internet giants, typical enterprises such as Ali, Tencent, JD.com, Zane, Himalayan, Analysis, fluent and so on. It can be seen that it has a broader network.

To sum up, the advantages are the founder's talent and entrepreneurial spirit, strong technical support, and broad network and disadvantage is the founder's lack of relevant expertise.

3.2 Opportunity

3.2.1 GDP and PI

GDP plays a crucially important role in deciding

customer's consumption ability. Additionally, PI directly influences how much people consume and what they consume. More specially, some products are not necessities of life, like milk tea. Only when people have enough PI can they have the consumption demand for non-necessities of life. Therefore, we must first judge whether Chinese customers have enough income to support a milk-tea market.

In 2020, China's GDP exceeded 100 trillion yuan, ranking second in the world. This year, China shows a quite high rate of economic growth. Under the sound economic environment and basic control of COVID-19, consumers are more likely to spend more on non-essentials than to keep their money in the bank.

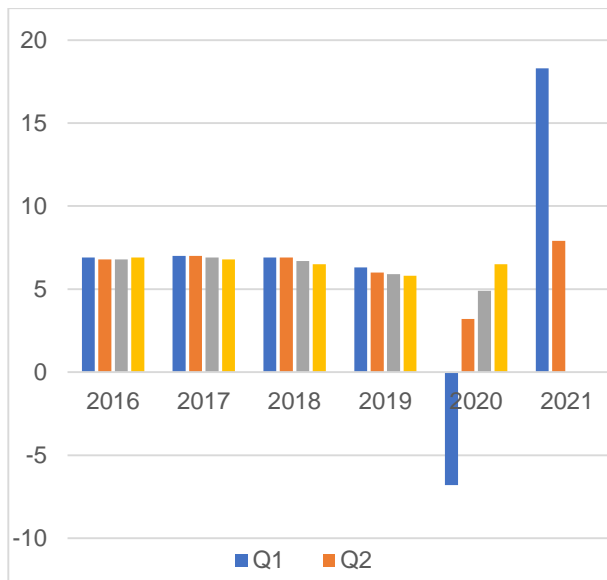


Figure 1. The Y/Y Growth Rate on GDP

Note: The Y/Y growth is the growth rate over the same period last year

In 2020, Chinese residents' per capita disposable income will be 32,189 yuan, an increase of 4.7 percent in nominal terms or 2.1 percent in real terms after adjusting for inflation. Of this, urban residents' per capita disposable income was 43,834 yuan, up 3.5%, or 1.2% in real terms after deducting price factors. Rural residents' per capita disposable income was 17,131 yuan, up 6.9%, or 3.8%, in real terms after deducting price factors [6]. With the increase of disposable income, residents' willingness to consume is constantly enhanced.

3.2.2 Total market size of milk tea

In China, freshly made drinks include freshly ground coffee, freshly made tea drinks, and others. The total market size is about 130 billion yuan, among which the scale of ready-made tea, mainly milk tea, is about 70-billion-yuan, accounting for 54% of the total scale [7]. Therefore, Naixue has an opportunity to develop its

market in the milk-tea market. Additionally, before the company entered the milk-tea market, few companies set the unit price of their products above 30 yuan, which means the market at this price was almost not developed. Meanwhile, there were still no milk-tea companies selling drinks as well as bread. Simply put, the company can quickly develop its unique market and occupy the existing market.

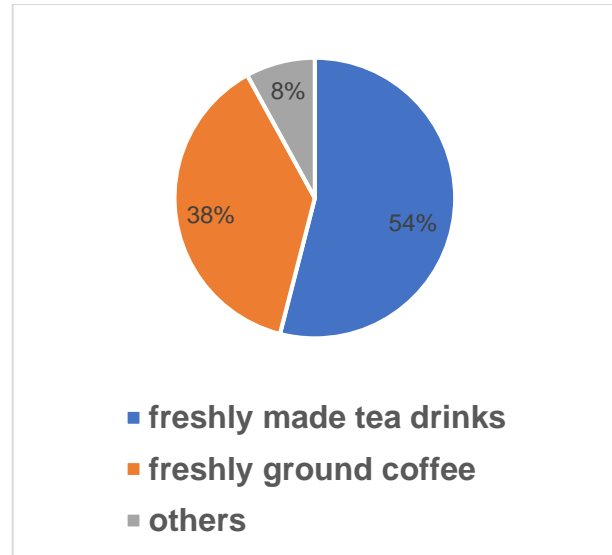


Figure 2. Share of beverage market by market.

3.2.3 Target consumers and their consumption concept

According to consumer research data, the post-90s consumers have become the main consumers of new tea drinks, accounting for 50% of the total number of consumers, while the post-80s consumers account for 37% [8]. Most of these customers are well educated and have a relatively high salary, which means they have different consumption concepts from the previous.

First, they incline to buy drinks that are lower in sugar and fat.

With the advance of consumers' health consciousness, they prefer products low in sugar, calories, and fat. However, almost all the existing milk-tea products have much sugar to make taste better. It gives Naixue a breakthrough to capture the market as soon as possible and maintain growth.

Second, they prefer products that are novel and can show their personality.

Today, the product's function is not merely meeting people's needs of food, clothing, shelter, and transportation. They become a kind of medium to show their personality or express their feelings. The increment and diversity of functions of products will become a new competing point.

Finally, they tend to enter a store which is not only a shop but a social place.

People are busy with their work or studying, which means they have no time to socialize at home with friends or colleagues. Therefore, if milk-tea stores can allow customers to socialize with others, they can attract more customers.

3.2.4 Competitors' products and pricing

Naixue's products are priced between 30 and 40 yuan. Therefore, we mainly focus on competitors whose products are priced the same way.

The first competitor is HEYTEA, and the next is LELECHA. Both sail fruit tea and cheese tea. However, their products have almost similar styles and tastes, which give Naixue a chance to open a new market.

Naixue invented a kind of bread that is low in sugar and fat and has a special taste. Meanwhile, it improved traditional drinks and added high-quality tea. Therefore, it has got a lot of customers.

3.3 Context

The analysis of context consists of several parts, unique brand vision, accurate brand positioning, consumer-centric product design, clear target customers, various featured products. Based on cutting-edge high-end positioning, targeting precise target group, Various cross-border joint marketing, and high market share.

3.3.1 Unique brand vision

Tea in China own 5000 years of history, but in modern society, people are impetuous, especially young people who have rarely spent time quietly sipping a cup of tea, Nai Xue hope that through simple, in line with the way of modern life to bring good tea to everyone, spread China's tea culture to the world's innovators and promoters. At the same time, through innovation to create a "tea and soft European bag", a new type of tea.

3.3.2 Accurate brand positioning

Naixue's tea adheres to the modern people to provide "a good cup of tea, a soft European bag" of the beautiful life, hoping to popularize china's tea to the world.

3.3.3 Consumer-centric product design

Starting from his own experience, after 18 mold openings, Pengxin designed a "NaiXue Cup" that fits women's slender and easy handshake feeling. Even the inconspicuous cup plugs are subdivided into the love plugs for girls and the little sun for boys. There is a

groove on the cup lid, which has also been specially tested. Girls can avoid lipstick sticking to the cup. The design is very intimate.

3.3.4 Clear target customers

Young women aged 20-35 as the main customer group, who have a great large demand for milk tea and fruit tea. NaiXue once proposed to "create the third leisure space for women" According to its founder, Peng Xin, a comfortable, spacious, delicate, and fashionable space environment where photos can be taken and girlfriends can relax and chat is the core demand of female consumers for tea shops in China.

3.3.5 Various featured products

Table 2. the information of products

Product	Features
Found·Tea	Fresh fruit tea, cheese milk cover tea, cold brewed tea, freshly brewed high-end tea, etc. In addition, new products will be launched every month with seasonal fruits, and the corresponding products will also be off the market when the fruit is out of season.
Soft European bread	Different from Japanese bread, soft European bread is characterized by low oil, low sugar, and low salt. After a long time of fermentation, the bread is fully matured and emits a natural wheat flavor. Nuts, dried fruits, and various grains are added to give a chewy hardness. Different from European-style bread, the addition of cheese makes the package softer and enriches the taste at the same time.
Tea gift	Nai Xue will focus on the development of new retail. Gather famous teas from all over the world, select every good tea to combine with innovative tea cups, and at the same time design exquisite packaging according to different holiday styles to make tea gift boxes. Let consumers be exposed to good tea in more diverse forms and create different consumption experiences.
Cake	Naixue's cake is made of New Zealand pure natural butter cream, which is sweet but not greasy, soft but not creamy.

3.3.6 Based on cutting-edge high-end positioning, targeting precise target groups

So far, 70% [9] of newly opened stores are located in shopping malls in first- and second-tier cities in China. After the IPO, Naixue's Tea plans to open about 650 more stores this year and next, about 70% of which are planned for the 200-square-meter, high-end Naixue PRO.

While finding the location of the store, Naixue's tea is also a high-end price route that is rare in the industry. As of the end of 2020, the average selling price of Naixue's tea is 43.3 yuan per order, which is higher than

the peer's average of 35 yuan, ranking first among domestic high-end freshly made tea chains and surpassing the current market share. Naixue's tea has changed the way that milk tea in the industry has been brewed with creamer for many years. Instead, fresh fruit tea is made with core raw materials such as fresh fruits, fresh milk, and high-quality tea. This has led to the highest cost of Naixue's tea. It is derived from food ingredients, accounting for nearly 40%, the highest proportion among the top ten tea brands. Its first creative combination of Chinese and Western "tea drinks + soft European bags", coupled with the high-end configuration of more than 200 square meters of stores, has made its customer unit price consistently exceed the industry average.

Naixue's tea adheres to the business philosophy of "chains do not copy", and has successively launched different styles and unique themed stores, combining experience and marketing to create "Naixue Dream Factory", "Naixue's Gift" and "Naixue Winery". Themed stores such as Bla Bla Bar and Naixue PRO tea shop. It is understood that these stores retain only 40% of the similarities, breaking the "one-thousand-store" pattern of the catering industry, opening a truly personalized retail and differentiated operation, and thus stand out in the tea market.

3.3.7 Various cross-border joint marketing

In the past one or two years, NaiXue's tea cross-border joint marketing has spared no effort and made many successful cases. First, in the internal product marketing model, Naixue's tea boldly adopted the cross-border sales model of "tea drink + bread", declaring that "a cup of good tea and a mouthful of soft European bags will meet two good things in Naixue." The most representative portfolio of featured marketing products since its establishment. Second, in terms of external product marketing model, Naixue's tea has cross-border marketing with many different industries—cooperating with OPPO mobile phones to create a music carnival for young people—the red and blue music festival. During this period, Naixue specially launched Fashionable red and blue special drinks have become a highlight of the music festival, in cooperation with teamLab, two limited-edition cold brewed teas were jointly launched in an immersive art exhibition of light and shadow, which locked a large number of fans.

3.3.8 High market share

Based on the total retail consumption value in 2020, Naixue's tea accounted for 18.9% [10] of my country's high-end ready-made tea market, making it the second largest tea shop brand. Hey Tea, the number one, has a 27.7% market share in the high-end freshly made tea field.

3.4 Discussion on the development/ investment decision of Naixue's tea

After analysis and combining the above three aspects, we believe that the industry has great potential to development, with clear product positioning and target consumers. Entrepreneurs have strong innovation and management capabilities, and the investment advantage of Naixue's tea is greater. And after the company appeared on the market, it reversed its previous loss. We expect the company will expand further in the future to occupy more milk tea and fruit tea market shares.

4. CONCLUSION

After comparing four aspects, we can note that Naixue has a professional management team engaged in the beverage industry for many years and has an excellent Entrepreneurial spirit. Then, many opportunities can boost the company's development, including rapid economic growth, a big milk-tea market, and so on. Next, it has found diverse stores and created many healthy and popular products. Therefore, it has huge potential and is worth to be invested. Meanwhile, in the process of assessing, we can note that we just need to search relevant information in four aspects and compare them but don't need to set several parameters to assess it. It shows that the POCD framework is easy and efficient. In the future, with more and more access to information, this method will be better since VC can obtain startups' information in people, opportunity, context, and deal easier and more comprehensively. On the whole, VC or investors can use the POCD framework to judge whether to invest in startups.

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